



**USAID/PRICEWATERHOUSECOOPERS
EGYPT PRIVATIZATION IMPLEMENTATION PROJECT (“PIP”)**

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QUARTERLY REPORT TO USAID FOR THE THIRD QUARTER OF 2001

31 OCTOBER 2001

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1. EXECUTIVE SUMMARY

During the Third Quarter 2001, the USAID Privatization Implementation Project (PIP) assisted the Ministry of Public Enterprises (MPE) and the Ministry of Economy and Foreign Trade (MOEFT) to prepare and promote a number of companies for privatization. Major PIP accomplishments this Quarter include:

- On September 10, 2001, PIP's promotional assistance to the Metallurgy Holding Company (HC) helped in the important sale of its remaining stake (47%) in **Helwan Cement** to the Arab Swiss Engineering Company (ASEC) for L.E. 660 Million. ASEC also purchased 11.75 million shares valued at L.E. 648 million from the stock market in its acquisition of a total of 97.4% of the company's shares.

Market-based financing was arranged and lead by Citibank. Government-owned banks, which control most Egyptian pound deposits, accordingly provided most of the local funding.

CIIC, the HC's investment bank, carefully examined the legitimacy of the ASEC financing arrangements prior to tender award. The total cost of this significant acquisition was approximately LE1.3 billion (\$309 million).

PIP's advertisement in the major cement industry publication generated interest among several potential anchor investors, which set the stage for a tender that resulted in a competitive environment and a sale price above the valuation.

- On October 14, 2001, Sherif El Gabely & Co. and **Abu Zabaal Fertilizer Company** signed an eight year lease/purchase contract. The first three years requires lease payments of LE 16 million, LE 17 million, and LE 18 million. The lease obligation will convert by its terms to a five-year deferred purchase for LE150 million during years 4-8. The lease and purchase obligations are backed by an LE 30 million standby letter of credit as well as other practical incentives. The parties must agree on a value for current assets, and Abu Zabaal board of directors as well as its General Assembly must approve the agreement.
- On September 27, 2001, PIP representatives participated in a meeting at which the financial bids for **Al Nasr Glass and Crystal** were opened and discussed. Three bids were at or above the reserve price set by the Central Audit Agency (CAA). PIP has delivered a company diagnostic, valuation, and company profile for Al Nasr Glass and Crystal and is now assisting the Metallurgical Industries Holding Company with the negotiations with winning bidders.
- One informal offer was received from an offshore anchor investor for one of the properties in the EGOTH portfolio.
- PIP prepared 11 companies to the ready-for-tendering stage.
- PIP completed seven (8) valuations of Joint Venture (JV) companies and obtained Central Audit Agency approval on all eight. The Ministerial Privatization Committee has approved four of the eight valuations. This initial success in preparing these JV companies for sale bodes well for the privatization of the 500 plus JV companies.
- PIP also completed valuations on two minority interests in hotel companies.

- PIP completed a comprehensive hotel market study for Cairo, Luxor and Aswan.
- Four (4) companies are in final stages of being sold to Employee Shareholder Associations.

In addition, PIP participated actively in the Arab Financial Forum/Euromoney Conference in Cairo (September 11-12), improved coordination with other privatization activities funded by the European Union, and continued to market aggressively Egyptian public enterprises to local and international investors.

SUMMARY OF ACTIONS ON MPE AND MOEFT RELATED ACTIVITIES

The following account summarizes the status of the Law 203 and Joint Venture companies assigned to the PIP Team:

- ⇒ The following 11 companies are currently being tendered for sale to strategic investors, employees, or private sector shareholders:

Misr Hotels, Red Sea Contracting, NEEASAE, Al Nasr Glass & Crystal, Al Nasr Steel Pipes, Omar Effendi, Alexandria Cooling, Misr Import & Export, Gharbeya Rice Mills, National Company for Hotels and Tourism, and Arab Company for Tourism & Hotel Investment. It is unlikely however that more than a handful of these deals will be closed before the end of the year.

- ⇒ If the GOE should choose, approximately 30 additional companies could be offered for sale by the end of February 2002. These candidates constitute the privatization “pipeline” and include:

Shepherd’s Hotel, EGOth floating hotels, Cleopatra Hotel, Sherazade Hotel, Delta Fertilizers, Al Nasr Fertilizers, Mokhtar Ibrahim Construction, Hassan Allam Construction, Nile Consumer Outlets, Al Ahram Consumer Outlets, EDFINA, General Warehouses, Ismailia Cooling Company, National Company for Housing for Professional Syndicates, Misr America International Bank, Cairo Far East Bank, El Fayoum for National Food Security, Egyptian Glass Company, Misr Aswan Co. for Fishing, Misr Clay Brick Company, Misr Iran Textile Company (“Miratex”), October Development and Real Estate, Rowad Tourism, and Misr Sinai Travel.

ISSUES THIS QUARTER:

DIFFICULT INVESTMENT CLIMATE

The investment climate in emerging markets has soured in recent months and the September 11 attacks on the United States will only make foreign investors more cautious, particularly those who may have been interested in investment opportunities in Egypt’s tourism and hospitality sector. With that in mind, it is reassuring that offshore investors have recently made offers on two important assets, Egyptian Glass Co. and a hotel in EGOth’s portfolio.

VALUATIONS

Unfortunately, the valuation issue remains a significant barrier to privatization. For most of the companies offered for sale from our portfolio, investors' bids have ranged from 10% to 60% of the value audited and approved by the CAA. While there have been exceptions (most recently Alexandria Cooling and Al Nasr Glass & Crystal, cited above), in general, the Government's asking prices have far exceeded investors' offers.

In the case of Al Nasr Steel Pipes, for example, the Holding Company's discounted cash flow (DCF) valuation was greater than the investor's offer by a factor of ten. In fact, the HC's DCF valuation for one of the company's production lines was greater than the net asset replacement value of the production line. The investor claims that the cost of purchasing a brand new production line from abroad and importing it into Egypt is lower than the Government's valuation for an old production line.

DECISION-MAKING PROCESSES

The lack of a centralized decision-making process in the case of the JVs in particular has been a contributing factor in the slow pace of privatization. However, the PIP Team has developed effective relationships with the principal JV shareholders and the MOEFT, and we plan to address this issue through the introduction and dissemination of a detailed "step-by-step" guide to preparing and promoting a joint venture company for sale. Initial discussions with the MOEFT are underway, and our proposal has been positively received at the Ministry. A copy of the step-by-step guide is attached for your convenience.

NEW STRATEGIC FOCUS

Despite the challenges described above, the PIP Team is prepared and eager to move ahead with a plan focused on closing certain identified transactions. As our Six-Month Workplan (August 31, 2001) states, "PIP's focus in the near term must be on activities that will have an immediate impact on successful and important transactions... During the next 6 months, we propose to focus on those transactions that are likely to be concluded in the short-term and to slow or stop work on activities such as restructuring or leasing distressed companies that are unlikely to be sold. We have already begun to implement major staffing changes on the Project that we believe will strengthen our ability to close deals in the short term."

Indeed, the Project is now organized according to small, specialized "transaction teams" consisting of a team leader, a point person and a back up. Each transaction (i.e., a company that has been offered for sale and has generated interest among investors) is now managed by a team leader primarily responsible for ensuring the delivery of the full range of services necessary to close the deal, including promotion, packaging and negotiation. We have also assigned senior advisors to develop and manage relationships with the Chairmen of Law 203 holding companies, as well as designated representatives of joint venture shareholders. Additionally, we have assigned an experienced senior investment-banking advisor to develop potential Gulf investor relationships. We believe that this new focus and tighter organization will improve our ability to manage Project resources, and to deliver timely and appropriate advice to the Holding Companies, and most importantly to close transactions.

2. ISSUES AND RECOMMENDATIONS

1. **Issue:** Valuations approved by the CAA are typically higher than the “market” price of state assets for several reasons: the CAA often prefers the net asset replacement valuation method instead of the discounted cash flow (DCF) method; when it does use the DCF method, the CAA uses a discount rate (12-15%) considered too low by industry analysts and investors; and the CAA valuations often become obsolete before the review and approval process is complete. In order to compete effectively for global capital, Egypt must price its privatization assets on a real time basis; valuations must be accurate, market-based and up to date.

Recommendation: Egypt should consider relying on “fairness opinions” by professional market-participating investment advisors with regard to sale prices, rather than on formal valuations. Egypt could rely on its competitive tender process to generate fair offers and on professional advisors’ real-time “fairness opinions” rather than on government-generated valuations that tend to take months to develop and become potentially obsolete the instant they are approved.

2. **Issue:** The Law 203 portfolio in particular is structured so that the owners of state assets (the Holding Companies) are evaluated and rewarded according to how well they manage public enterprises, not how quickly they dispose of them. Current asset holders and managers have no practical incentives to sell. Indeed, there often exist disincentives to take risks involved in sometimes restructuring and selling assets.

Recommendation: While it is unlikely that the Government of Egypt will change the ownership and management structure of state assets, it may be possible to effect positive effect on the margins. Attempt to create and institutionalize incentives, perhaps through revisions to the USAID Development Support Program or through a Government of Egypt awards program, so that risk takers are rewarded.

3. **Issue:** Current asset holders and managers often do not have the professional expertise necessary to successfully manage sale of assets.

Recommendation: Egypt should consider concentrating efforts to attract offshore anchor investors in certain targeted sectors such as tourism or banking, rather than embarking on a broad program that markets dozens of sectors to foreign direct investors. Furthermore, the Government might explore the idea of establishing a single selling authority that would be given a mandate to “own” the asset as each is prepared for sale and sold. Failing sale by a certain date, the asset would be “returned” to its original holder.

4. **Issue:** Many of the Law 203 companies have been offered for sale previously and are now being re-offered, sometimes without significant changes to price, structure, or asset mix.

Recommendation: If the company is being offered for the second time and two bids are received, the Government should make it clear that it will sell to the highest bidder, regardless of the CAA reserve price. If the company is being offered for the third time, the Government should announce that it will sell to the highest bidder (even if there is only one bidder) or begin proceedings to liquidate the company.

3. CURRENT AND LIKELY TRANSACTIONS

This Quarter, PIP conducted investor outreach, prepared marketing brochures, completed investment memoranda, and undertook tender preparatory tasks for the following Law 203 and Joint Venture companies:

Law 203 Companies (MPE)

1. **Misr Hotels.** PIP advised the Holding Company for Housing, Tourism and Cinema on the timing and transaction structure for the hotel company that owns the landmark hotel, the Nile Hilton, and the Hilton Dahab. PIP also promoted the company to international hotel operators and arranged several site visits. The Holding Company will entertain offers for the company and thus the tender remains open.
2. **Shepherd's Hotel.** PIP completed an information memorandum for this company and a professional market survey for the luxury hotel market in Cairo. The project continues to advise the Holding Company for Housing, Tourism and Cinema on the marketing, promotion and sale of this prominent hotel asset. PIP has contacted several international hotel investors and operators to the Holding Company, has generated one serious investor and directly assisted in preliminary negotiations.
3. **Cleopatra and Sherazade Hotels.** PIP developed expressions of interest in each of these hotels. PIP completed a marketing brochure and began to explore legal considerations relating to the potential sale of these assets.
4. **Abu Zabaal Fertilizers.** The Chemicals Holding Company is close to concluding a eight year lease based on an initial period of three years with a five year extension option. The agreement, noted above, provides that a consortium of local investors will initially lease and subsequently purchase the company. PIP prepared marketing brochures and information memorandum, carried out a promotional campaign, and has assisted in the negotiations for this company. Sale of this company to an independent group should be in the country's interests, preventing this sector from being operated as a monopoly.
5. **Red Sea Contracting.** The Construction Holding Company held negotiations with an investor to purchase this small construction company. PIP prepared the company profile and the information memorandum and assisted in the negotiations, which unfortunately appear to have terminated. The company may also be a candidate for an ESA.

6. **NEEASAE.** The Engineering Holding Company has received two expressions of interest from potential investors for this light bulb manufacturer. PIP prepared a diagnostic review, a marketing brochure and an information memorandum for the company. The tender process is on-going.
7. **Helwan Cement** (Noted above as a major accomplishment). PIP assisted the Metallurgy Holding Company with valuation, international advertisement, investor outreach with two foreign investors, and promotion for this cement company, one of Egypt's a few producers of white cement. On September 10, the Holding Company sold its 47% stake in the company to the Arab-Swiss Engineering Company. ASEC acquired another 47% of the company's shares to complete a L.E. 1.3 billion transaction. Citibank arranged market-based financing for the deal.
8. **Al Nasr Steel Pipes.** The tender for this company closed on June 22 and the Metallurgy Holding Company is currently in negotiations with a local investor interested in one of the production lines. PIP has done investor outreach and marketing for this company.
9. **Al Nasr Glass and Crystal.** On September 27, the Metallurgy Holding Company opened the bids for this glass and ampoule manufacturer, which is being offered for sale as three separate production units to investors. The Holding Company received five competitive offers and is currently in negotiations with the winning bidders. PIP prepared a marketing brochure, valuation, and information memorandum for this company.
10. **Omar Effendi.** The Trade Holding Company extended the tender until October 31, to allow more time for an anchor investor to complete the necessary due diligence for this national retail chain. PIP has devoted considerable resources to promoting this company for sale, both locally and internationally. There are recent indications that two Saudi investment groups are very interested in this company.
11. **Misr Import-Export.** On August 15, the Minister of Public Enterprise announced that the Trade Holding Company had completed negotiations on a majority sale of the company to an Employee Shareholder Association.
12. **Nile and Al Ahram Retail Outlets.** At least one anchor investor has expressed interest in portions of network of food and retail outlets. The Food Holding Company is prepared to entertain offers for both the closed and open (operational) outlets. PIP compiled a database of the more than 5,000 outlets and prepared a presentation for the Holding Company to give to investors.
13. **General Warehouses.** The Maritime Holding Company considers this company to be a candidate for sale to an Employee Shareholder Association and PIP is assisting the HC with legal and financial considerations. PIP has completed a valuation and cash flow analysis for the company.

14. **Delta Spinning and Weaving.** The Textile Industries Holding Company is preparing to offer this spinning and weaving company for sale before the end of 2001. PIP has prepared a marketing brochure and is contacting interested investors in the region.

JV Companies (MOEFT)

PIP is assisting the GOE's designated representatives (mainly the public sector banks and insurance companies) prepare the following JV companies and banks for the sales transaction phase of privatization:

1. **Ismailia Cooling and Storage Company.** Banque Misr has received at least one expression of interest from a local investor for this small refrigeration/cold storage company. PIP completed a company profile in English and Arabic and has begun to prepare the information memorandum.
2. **National Housing for Professional Syndicates.** PIP completed the valuation and presented Banque Misr with transaction recommendations, a company profile and marketing materials to promote the sale of the Meridien Heliopolis hotel and related real estate assets.
3. **Misr America International Bank.** PIP has provided valuation, information memorandum, marketing, and investor outreach assistance to Banque du Caire for the sale of this bank. International banks have expressed an interest in MAIB.
4. **Cairo Far East Bank.** PIP has initiated steps to tender the bank. Negotiations are underway between the Banque du Caire and the Korean Exchange Bank to offer their respective shares to a prospective buyer. PIP has received several international expressions of interest in the bank.
5. **Fayoum for Food Security.** Banque du Caire recently received an expression of interest in this company from a local investor. PIP completed a valuation, which was approved by the Central Audit Agency in September, and is now actively promoting the company.
6. **Egyptian Glass Company.** PIP assisted the National Bank of Egypt by completing a valuation, preparing marketing materials, assembling a data room, and conducting investor outreach activities for the promotion and sale of Egypt's only float glass manufacturer. Subsequently the Central Audit Agency has approved the valuation and at least two international glass manufacturers have expressed interest in the Company. PIP arranged and negotiated a crucial waiver of restrictive license provisions to allow for a competitive tender.
7. **Misr Aswan Company for Fishing.** PIP assisted the Bank of Alexandria by completing a valuation and company profile and marketing this fish production company. The Central Audit Agency has approved the valuation and investors have shown interest in the company.

8. **Misr Real Estate Investment and Tourism.** PIP completed a company diagnostic and a valuation for this real estate company and presented both to Misr Insurance for review and approval. The valuation has been approved by the Central Audit Agency.
9. **Misr Iran Textile Company (Miratex).** In September, the MOEFT assigned the Textile Industries Holding Company to be the primary GOE representative for this profitable textile company. PIP has done a marketing brochure in English and Arabic and has contacted prospective investors.
10. **Rowad Travel.** PIP has helped El Chark Insurance prepare and market this tourism company with a valuation report and a company profile. El Chark and the MOEFT approved both documents and the Central Audit Agency approved the valuation on September 15.
11. **October Development and Real Estate Investment Company.** The National Insurance Company is reviewing a marketing brochure that PIP prepared in August. PIP will value and promote this medium-sized real estate company.
12. **Misr Brick Company.** PIP assisted the Ministry of Housing to complete a valuation and marketing materials for this Company, the largest brick manufacturer in the Middle East.
13. **Al Shams Housing and Development.** PIP completed a valuation for this construction company and presented it to the company and its largest shareholder, the Construction Holding Company. The latter formed a committee to review the valuation and privatization strategy.
14. **The Arab Company for Tourism and Hotel Investment and the National ("Kawmia") Company for Tourism.** PIP completed a valuation for both companies and presented them to the Chairman of the Holding Company for Hotels, Tourism and Cinema. These companies own shares in the Semiramis Intercontinental Hotel, the Conrad Hotel and the Sheraton Giza Hotel. The majority owners have expressed interests in buying the minority interests owned by the HC.

PIP also completed diagnostics for several other enterprises that have not yet been offered for sale, including companies in the maritime, construction, trade, food processing, and spinning & weaving sectors.

Below is a table of current and likely Law 203 and JV transactions. It includes a summary of PIP's assistance to the company to date and an estimation of the probability of sale.

CURRENT AND LIKELY TRANSACTIONS 2000 - 2002

HC / GOE Rep	Company Name	Tier	Stage	% GOE	Diagnostic	Marketing Brochure	Valuation	Info Memo	Tender Announcement	Tender Closing Date	MPC Approval	Probability of Success	Company Notes
Tourism	Misir Hotels	1	Open Tender	100	1-Dec-00	15-Dec-00	31-3-01 (PIP)	11-Jan-01	29-Apr-01	2-Sep-01	February	High	PIP has advised the Holding Company for Housing, Tourism and Cinema on the timing and transaction structure for this landmark hotel company comprising the Nile Hilton and Hilton Dahab. PIP has also promoted the company intensively to international hotel operators and arranged several site visits. The Holding Company is entertaining offers for the company and the tender remains open. Fourteen (14) investors purchased info memo and four (4) conducted due diligence. HC meetings with investors are on-going.
Tourism	Shepherd's Hotel	1	Promotion	100	1-Dec-00	19-Feb-01	31-3-01 (PIP)	30-Jun-01			February	High	PIP completed an information memorandum for this company and a professional market survey for the luxury hotel market in Cairo. The project continues to advise the Holding Company for Housing, Tourism and Cinema and EGOTH on the marketing, promotion and sale of this prominent hotel asset. PIP has introduced several international hotel investors and operators to the Holding Company, has generated one serious investor and directly assisted in preliminary negotiations.
Tourism	Cleopatra	1	Diagnostic	100	31-Mar-01	30-Aug-01					February	Low	A 3-star hotel on Tahrir Sq - excellent location; summer occupancy is near 100%; EGOTH owns the hotel, which occupies 1st and 8th-15th floors. But a state insurance company owns the building and current management is under contract through 2008.

HC / GOE Rep	Company Name	Tier	Stage	% GOE	Diagnostic	Marketing Brochure	Valuation	Info Memo	Tender Announcement	Tender Closing Date	MPC Approval	Probability of Success	Company Notes
													PIP developed general expressions of interest in the hotel. PIP completed a marketing brochure and began explore legal considerations relating to the potential sale of this asset.
Tourism	Sherazade	1	Diagnostic	100	15-Aug-01	30-Aug-01					February	Low	The HTC HC recently won a lawsuit against the current operator who leases the facilities, but may have trouble getting it enforced. The lease runs through 2013. A 3-star hotel on the Nile Corniche in Zamalek. 20-storey building with pool, restaurant, bar, cafeteria, 2 night clubs, disco. Occupancy rate in summer is near 100%. PIP developed general expressions of interest in the hotel. PIP completed a marketing brochure and began explore legal considerations relating to the potential sale of this asset.
Chemicals	Abu Zabaal Fertilizers	1	Negotiation	100	31-Jan-01		HC	15-Mar-01	1-Mar-01	30-Jun-01	February	High	The HC concluded an 8-year lease based on an initial period of three years with a five-year extension option. The lease provides the consortium of local investors in September 2001 with an option to buy which they intend to exercise in the initial period. The lease signed 10/14/01 must be approved by the Privatization Committee. PIP prepared marketing brochures and information memorandum, carried out a promotional campaign, and has assisted in the negotiations for this company.
Chemicals	Delta	2	Promotion	100	23-Nov-00	31-Jan-01	HC	15-Apr-01			February	Low	Of interest to investors, but the HC plans to offer Abu

HC / GOE Rep	Company Name	Tier	Stage	% GOE	Diagnostic	Marketing Brochure	Valuation	Info Memo	Tender Announcement	Tender Closing Date	MPC Approval	Probability of Success	Company Notes
	Fertilizers												Zabaal and Al Nasr fertilizers first. Info memo is complete and ready for distribution.
Chemicals	Nasr Fertilizers	2	Promotion	100	23-Nov-00	31-Jan-01	HC	30-Jun-01			February	High	Info memo drafted, being edited; waiting for the latest financial statements. Company recently started exporting for the first time, is growing.
Construction	Red Sea Contracting	2	Negotiation	100	1-Dec-00	15-Dec-00	HC	15-Jan-01	15-Jan-01	30-Jun-01	February	Low	No bids received before original deadline. Tender was extended at request of Gulf investor who submitted a bid well below the CAA reserve price on 7/3/01. The Construction Holding Company held negotiations with the investor but negotiations have stalled. PIP prepared the company profile and the information memorandum and assisted in the negotiations. The company may be a candidate for an ESA.
Construction	Elygect	2	Diagnostic	100							February	Medium	Valuation complete. Large company with majority of work outside Egypt. HC plans to announce tender in 2001.
Construction	Hassan Allam Construction	2	Diagnostic	100			HC				February	Low	Investor has approached the HC, which plans to offer the company for sale in 2001. Valuation is done and is awaiting CAA approval. PIP will do info memo and promotion. Company has large accounts receivables and all projects are government financed.
Construction	Mokhtar Ibrahim	2	Diagnostic	100	15-May-01	15-Jun-01					February	Low	Company profile complete (English and Arabic). Info memo in progress. May be interest in the company from the Gulf region. HC asked for our help to promote and value (DCF) the company. Company

HC / GOE Rep	Company Name	Tier	Stage	% GOE	Diagnostic	Marketing Brochure	Valuation	Info Memo	Tender Announcement	Tender Closing Date	MPC Approval	Probability of Success	Company Notes
													has LE 1 billion in accounts receivables and 100% of its projects are commissioned and paid for by the Government of Egypt.
Engineering	NEEASA	2	Negotiation	100	23-Oct-00	15-Feb-01	HC	30-Sep-01			February	High	Tender process is on-going. The Engineering HC insists that the company be sold as a going concern, not as assets or separate lines. The HC is willing to reschedule the debt of the company with the Nat'l Investment Bank. PIP has edited the info memo and two investors are conducting due diligence.
Metallurgy	Al Nasr Glass & Crystal	1	Negotiation	100	19-Oct-00	15-Dec-00	15-Dec'00 (PIP)	31-Jan-01	29-Mar-01	2-Sep-01	February	High	Five bids were received from anchor investors and two from ESAs. All five proposals from the anchor investors met the HC's minimum technical standards and were judged acceptable, while the ESA bids did not contain a bank letter of guarantee and were rejected. Several of the bids exceeded the reserve price for the three assets for sale: a glass bottle plant at Mostorod, a medical ampoule factory at Mostorod, and a crystal glassware facility at Yasseen. Negotiations with winning bidders will begin in October. PIP prepared a marketing brochure, valuation, and information memorandum for this company.
Metallurgy	Al Nasr Steel Pipes	1	Negotiation	100				15-Feb-01	25-Feb-01	22-Jun-01	February	Low	One Egyptian investor submitted a bid one-tenth the reserve price. He will re-submit his offer and negotiations will resume in October. The HC assumed that the new owner would upgrade the

HC / GOE Rep	Company Name	Tier	Stage	% GOE	Diagnostic	Marketing Brochure	Valuation	Info Memo	Tender Announcement	Tender Closing Date	MPC Approval	Probability of Success	Company Notes
													production lines to manufacture pipes for the transportation of oil and gas, which resulted in a higher DCF valuation. The investor told us he has no intention of going into the oil business.
Trade	Omar Effendi	1	Negotiation	100	1-Dec-00	15-Jan-01	HC	10-Feb-01	27-Feb-01	31-Oct-01	February	Medium	11 investors bought Info Memo. Tender postponed twice to enable investor (Saudi consortium) to finish due diligence. PIP has devoted considerable resources to promoting this company for sale, both locally and internationally.
Trade	Misr Import Export	3	Negotiation	100					11-Apr-01	NA (ESA)	February	High	ESA sale approved by MPE on 8/15. The Minister of Public Enterprise announced that the Trade Holding Company had completed negotiations on a majority sale of the company to an Employee Shareholder Association.
Trade	Alex Cooling	3	Negotiation	100					12-Feb-01	1-Jun-01	February	High	An anchor investor submitted a bid near the GOE reserve price and successfully completed negotiations with the HC. The bid is awaiting HC General Assembly approval.
Trade	Misr Car Trade	3	Diagnostic	100	25-Jul-01					NA (ESA)	February	High	ESA in final stages. The inventory and the company are being revalued. After that, the viability of selling the company to an ESA will be considered.
Food	EDFINA	1	Diagnostic	100	15-Jul-01	30-Sep-01	HC				February	Medium	Major investors interested but HC will not offer for sale until October at the earliest. PIP visited company and reviewed financial statements. HC has already done a valuation and requests PIP's help in promotion.

HC / GOE Rep	Company Name	Tier	Stage	% GOE	Diagnostic	Marketing Brochure	Valuation	Info Memo	Tender Announcement	Tender Closing Date	MPC Approval	Probability of Success	Company Notes
Food	Nile Consumer Outlets	2	Promotion	100	1-Jun-01	9-Aug-01		16-Jul-01			February	Low	At least one anchor investor has expressed interest in portions of network of food and retail outlets. The Food Holding Company is prepared to entertain offers for both the closed and open (operational) outlets. PIP compiled a database of the more than 5,000 outlets and prepared a presentation for the Holding Company to give to investors.
Food	Gharbeya Mills	3	Negotiation	100					NA (ESA)	NA (ESA)	February	High	90% ESA transaction completed and approved by MPE on 8/15; 20-year payment terms.
Maritime	General Warehouses	2	Valuation	100	31-Mar-01		01-Aug-01 (PIP)		NA (ESA)	NA (ESA)	February	Medium	Potential ESA candidate, although HC and AC insist that no transaction will occur until a contract/license is signed with the Port Authority. PIP valuation and cash flow analysis completed and presented to HC (8/12 and 9/25). HC approved valuation, and PIP is assisting with legal and financial considerations.
Banque Misr	Ismailia Cooling Company	2	Promotion	70		25-Jul-01	15-April-01 (NBE)	15-Oct-01			June	Medium	PIP reviewed financials and did company profile in English and Arabic (approved on 9/5). A small company (LE 400,000 profits/yr). One potential investor is interested. BM wants to sell the public shares (70%) via open tender without the requirement that the bidder acquire the 30% outstanding/free float.
Banque Misr	National Housing for Professional Syndicates	1	Promotion	59.4		31-Mar-01	15-May-01 (MG)				June	Medium	Reviewed financial statements and toured the Meridien hotel. PIP did profile and will promote. CAA approved valuation on 9/15.

HC / GOE Rep	Company Name	Tier	Stage	% GOE	Diagnostic	Marketing Brochure	Valuation	Info Memo	Tender Announcement	Tender Closing Date	MPC Approval	Probability of Success	Company Notes
Banque du Caire	Misr America International Bank	1	Promotion	49.87		15-Jun-01	31 July 01 (PIP)	1-Aug-01			February	High	PIP provided valuation, information memorandum, marketing, & investor outreach assistance to Banque du Caire for the sale of this bank. International banks have expressed an interest in MAIB.
Banque du Caire	Cairo Far East Bank	1	Promotion	39.2		25-Jun-01	31 Aug 01 (PIP)	31-Oct-01			February	High	PIP has initiated steps to tender the bank. Negotiations are underway between Banque du Caire and Korean Exchange Bank to offer their respective shares. PIP has received several international expressions of interest in the bank.
Banque du Caire	El Fayoum for National Food Security	1	Promotion	99.7			28 June 2001(AN)				February	High	Added to PIP portfolio 6/1/01. Potential investor has already expressed interest. PIP finished valuation and sent to MOEFT. CAA approved valuation on 9/15. Fayoum Governorate must decide either to extend the lease of the land of the company for another 20 years or sell the land to the new investor.
National Bank of Egypt	Egyptian Glass Company	1	Promotion	71		22-May-01	15 April 01 (PIP)				February	High	PIP assisted the National Bank of Egypt by completing the valuation, preparing marketing materials, assembling a data room, and conducting investor outreach activities for the promotion and sale of Egypt's only float glass manufacturer. The CAA approved the valuation and at least two international glass manufacturers have expressed interest in the Company. PIP arranged and negotiated a crucial waiver of restrictive license provisions to allow for a competitive tender.

HC / GOE Rep	Company Name	Tier	Stage	% GOE	Diagnostic	Marketing Brochure	Valuation	Info Memo	Tender Announcement	Tender Closing Date	MPC Approval	Probability of Success	Company Notes
Bank of Alexandria	Misr Aswan Company for Fishing and Fish Production	2	Promotion	89.56			3 July 01 (AN)				February	Medium	PIP assisted the Bank of Alexandria by completing a valuation and company profile and marketing this fish production company. The Central Audit Agency has approved the valuation and investors have shown interest in the company.
HC for Spinning & Weaving	Misr Iran Spinning & Weaving ("Miratex")	2	Diagnostic	51							February	Medium	Company profile (Engl and Arabic) is complete and ready for distribution. Visited company twice (8/15 and 9/20). Investors are interested. MOEFT assigned the Spinning & Weaving Holding Company as GOE Representative on 9/24.
Misr Insurance	Misr Sinai Travel	1	Diagnostic			15-Apr-01	15 March 01 (CAA)				February	Medium	PIP completed and edited profile; KPMG did an earlier valuation. Occupancy rates are extremely low and there is no investor interest; valuation is on hold.
Misr Insurance	Misr Real Estate Investment & Tourism	2	Diagnostic				7-Jul-01 (MG)				February	Medium	PIP has done diagnostic and contracted for valuation and presented to Misr Insurance for approval. CAA has approved valuation.
National Insurance Company	October Dev & Real Estate Company	2	Diagnostic		31-May-01	30-Sep-01					February	Medium	Reviewed company financials. Company profile is in draft. Need to complete and review with Project and company management.
El Shark Insurance	Rowad Tourism	2	Promotion	75.5		30-Apr-01	15 April 01 (MG)				February	Medium	PwC Cairo reviewed and approved valuation. CAA approved valuation on 9/15. PIP is preparing the info memo. Marketing brochure and valuation report approved by the company, the Ministry of Economy, and Chark Insurance. Profile being reviewed internally.

HC / GOE Rep	Company Name	Tier	Stage	% GOE	Diagnostic	Marketing Brochure	Valuation	Info Memo	Tender Announcement	Tender Closing Date	MPC Approval	Probability of Success	Company Notes
Ministry of Housing	Misr Brick Company	1	Valuation	100		31-Mar-01	31 July 01 (PIP)				February	Medium	Visited company several times; management very cooperative; valuation complete and approved by AC; Ministry of Housing approved valuation on 9/22. The Ministry is eager to sell either as assets or as a going concern.
Construction HC	Al Shams Housing & Development	2	Valuation		31-May-01	15-Oct-01	31-Jul-01 (PIP)				February	Medium	Only 44.5% owned by HC, 10% owned by ESA which has debts to HC. Valuation is done but the company chairman objected to using DCF as a method for valuing his company (he wants to use the book value of assets). The largest shareholder -- the Construction HC -- formed a committee to review/approve the valuation and we are awaiting their decision.
EGOTH (PEO)	Arab Co. for Tourism & Hotel Invest (Semiramis)	1	Valuation	28			31-July-01 (PIP)				February	Medium	PIP completed a valuation for the company and presented it to the HC Chairman in August. Waiting for CAA approval and tender announcement. Majority owners may buy HC minority interests.
EGOTH (PEO)	Kawmaya Hotels & Tourism (100% Cairo Sheraton, 14%Conrad)	1	Valuation	30			31-July-01 (PIP)				February	Medium	PIP completed a valuation for the company and presented it to the HC Chairman in August. Waiting for CAA approval and tender announcement. The majority owners have expressed interests in buying the minority interests owned by the HC.

4. DELIVERABLES COMPLETED DURING 3RD QUARTER 2001¹

No.	Type of Deliverable	Title	Date
1.	Information Memoranda	NEEASAE (Arabic only)	9/26/2001
2.		Al Nasr Fertilizer Company	7/30/2001
3.	Company Profiles	NEEASAE (revised)	10/15/2001
4.		El Siouf Spinning & Weaving	10/10/2001
5.		Mokhtar Ibrahim (revised)	9/26/2001
6.	Diagnostic Reports	The PIP Portfolio	10/15/2001
7.		Miratex	9/30/2001
8.		Al Nasr Import & Export	9/24/2001
9.		Kuwaiti-Egyptian Investment Co.	9/18/2001
10.		Misr Dairy Products	8/23/2001
11.		Egyptian International Gas Technology Company	8/15/2001
12.		General Warehouses	8/14/2001
13.		Ismailia Cooling Company	8/8/2001
14.		Cleopatra and Sherazade Hotels	8/8/2001
15.		Alexandria and Nile Outlets (database)	7/29/2001
16.	Valuation Reports	October Development and Real Estate*	9/21/2001
17.		Al Shams Housing and Development*	9/18/2001
18.		Cairo Far East Bank*	8/31/2001
19.		General Warehouses*	8/6/2001
20.		Misr America International Bank*	7/31/2001
21.	Marketing & Investor Outreach	Investor meeting with international bank: Misr America International Bank and Cairo Far East Bank*	10/25/2001
22.		Investor meeting with 2 local investment banks: NEEASAE*	10/15/2001 and 9/10/2001
23.		Public Private Partnerships conference (British Embassy)	10/14/2001
24.		British Egyptian Business Association position paper	10/10/2001
25.		Investor meeting with local steel pipes producer: Al Nasr Steel Pipes*	10/10/2001
26.		Privatization Agency of Zimbabwe Study Tour (schedule of meetings)	10/3/2001
27.		NEEASAE meeting with EU project	9/17/2001
28.		Investor meeting with local transportation company: Ismailia Cooling*	9/15/2001
29.		Embassy of Romania outreach (cover letter, delivery of profiles)	9/13/2001
30.		Arab Financial Forum (Euromoney Conference)	9/11/2001
31.		Investor meeting with major hotel brand investor:	9/5/2001 and 8/20/2001

¹ Soft copies of deliverables are included in the CD-ROM version of this report.

No.	Type of Deliverable	Title	Date
		Shepherd's Hotel*	
32.		Investor meeting with local bank: Misr America International Bank and Cairo Far East Bank*	8/28/2001
33.		Investor meeting with local investor: Misr Aswan Fishing and Fish Production*	8/22/2001
34.		Investor meeting with majority owner representative: Arab Co. for Tourism & Hotel Investment (Semiramis)*	8/18/2001
35.		Investor meeting with major hotel brand investor: Floating Hotels*	7/25/2001
36.		Investor meeting with major hotel brand investor: Cleopatra and Sherazade Hotels*	7/24/2001
37.		Investor meeting with Gulf construction company: Red Sea Contracting*	7/20/2001
38.		Investor meeting with major international glass manufacturer: Egyptian Glass Company*	7/5/2001
39.		Investor meeting with major hotel brand investor: Misr Hotels*	7/6/2001
40.	Policy Memoranda	Step-by-step Guide to Privatizing Joint Venture Companies	9/27/2001
41.		PIP Work to Date	9/17/2001
42.		Helwan privatization summary	9/3/2001
43.		Letter to Dr. Salem, Director of the PEO, Status Report on Law 203	8/30/2001
44.		ESA Status Report	8/16/2001

* This deliverable contains sensitive and confidential information. Hard copies only are available upon request.

5. DELIVERABLES COMPLETED TO DATE

Type of Deliverable	Number
Information Memoranda	9
Company Profiles	45
Diagnostic Reports	55
Valuation Reports	17
Training and Capacity Building (documents and events)	27
Marketing and Investor Outreach (documents and events)	32
Policy Memoranda	30
Sector Studies	3

6. PROGRESS VERSUS BENCHMARKS

Consistent with the Project's new strategy, we proposed to USAID in our Six Month Workplan to revise and/or eliminate several of the Task Order's original benchmarks in order to reflect a more realistic assessment of what can be achieved:

Benchmark 1: Successful sales of GOE interest in Law 203 Companies.
Original Measure: The PwC consortium to offer for sale at least 90 firms in 2000, 62 firms in 2001, and 44 firms in 2002.
Revised Measure: It was agreed with USAID during the first quarter of project implementation (October 2000) that these targets were too ambitious and unrealistic given market conditions and programmatic obstacles. In January 2001, USAID agreed to the revised measure that PwC would prepare 40 Law 203 enterprises and major assets to be offered for sale by the end of 2001, including 100% of the Tier 1 Law 203 companies and assets assigned to the project by the MPE/PEO.
Progress: It is now clear that the revised measure is unachievable given the challenges outlined above. However, 12 companies assigned to PIP have been offered for sale. The 12 companies are Misr Hotels, Floating Hotels, Abu Zabaal Fertilizer, Red Sea Contracting, NEEASAE, Helwan Cement, Al Nasr Steel Pipes, Al Nasr Glass & Crystal, Omar Effendi, Alexandria Cooling, Misr Import & Export, Gharbeya Rice Mills. PIP has brought investors to Egypt to investigate these Companies, completed profiles, information memoranda and valuations and is now advising the relevant Holding Companies on transaction structure, marketing strategy and sales closure.
Proposed New Measure: We propose that the target for this benchmark be changed to read as follows: <i>PIP will prepare 15 Law 203 Companies to the point where they can be offered for sale by the GOE before the end of 2001, and 25 additional Law 203 Companies to the point where they can be offered for sale by the GOE before the end of 2003.</i>

Benchmark 2: Successful development and utilization of methods for cost-effective sales of less attractive Companies.
Original Measure: Screening guidelines established for all Tiers by the first Quarterly Report. Screening report listing each Company to be provided at least once each quarter.
Progress: PIP has screened and categorized all of the 193 Law 203 Companies and assets remaining to be privatized and has completed more detailed reviews of the 52 Companies and assets assigned to PIP by the MPE/PEO. We were informed in June 2001 that our staff would be given access to the MOEFT database for the purposes of screening and ranking the more than 500 Companies in the portfolio. We submitted another letter to the MOEFT in August 2001, again requesting that PIP be granted access to the database. PIP is completing diagnostics for the 35 JV Companies assigned to the project, submitting analyses and recommendations to the MOEFT on these Companies, and preparing several JVs for tender during the third and fourth quarters of 2001. When we are granted access to the database we will develop screening guidelines and reports for the JVs in the MOEFT database. We have met the conditions of the benchmark and will continue to submit screening reports and diagnostics on a quarterly basis. By the end of 2001 PIP will also prepare a complete table on all Tier I Law 203 Companies and attempt to do the same for JVs, assuming data are available.

Benchmark 3: Brokering of turnaround service contracts for Tier III Companies.
Original Measure: "Quick Response Diagnostic" completed for 100% of Tier III Companies. Turnaround services to be provided to at least 5 Tier III Companies in 2000 and 10 Tier III Companies in 2001.
Progress: At the close of the third quarter of 2001, seven (7) Tier III State-Owned-Enterprises Law 203/91 and Law 159/81 (SOEs) remained assigned to PIP in three sectors: Maritime Industries, Engineering Industries and Textile Industries. PIP has successfully identified three (3) parties interested in leases, acquisitions or a combination of these methodologies for companies in the Engineering and Textile Industrial Sectors. Two (2) of these were deemed serious enough to warrant PIP's facilitation of meetings at the Minister of Public Enterprise level to discuss developments, both meetings yielded focused results. The first meeting regarded a Tier III SOE re-classified as a Tier II company in the

Engineering portfolio where the Minister met with a local potential investor as arranged by PIP; the meeting produced an understanding regarding the eligibility of the SOE in question to be granted a tax holiday status *a priori* to the investor taking further steps. The Cabinet approved this in mid-August, 2001. The second meeting with a European potential investor's representative related to the textile sector. PIP arranged for the investor's due diligence team to conduct preliminary visits for all four assigned Law 203 SOEs in this sector during September 2001. In short, for every Tier III SOE assigned to PIP since the inception of the project (except one), PIP has identified credible potential investors locally and/or internationally. Five of these parties are in direct communication with the GOE and PIP is in a position to return the management of this process over to the Holding Companies.

While PIP previously devoted resources to Tier III companies in our portfolio, the GOE has recently determined that it is no longer interested in concluding management contracts or hiring "turnaround" firms for distressed Companies. As per our revised strategy, we will prepare and promote only Companies that are likely to be sold and are likely to attract investor interest without major restructuring. Therefore, PIP will not devote any additional resources to these 7 firms and will request the PEO to delete them from our portfolio. Despite this, PIP will continue to direct investors with queries on Tier III companies and sectors to the appropriate GOE counterpart. The GOE has launched a new policy to grant tax holidays to investments in distressed SOEs and this will be helpful. PIP will also continue to assist in transactions where a lease with an option to buy is likely to lead to a transaction in Tier III cases, but these will be evaluated on a case-by-case basis and the priority will remain promoting companies where a transaction is feasible without restructuring.

Proposed New Measure: Based on the GOE's new focus, we have revised our strategy and propose to suspend this benchmark.

Benchmark 4: Institutional capability among the GOE, HCs, and the Investment Promoters to support continued privatization transactions, turnarounds and liquidations should be developed.

Original Measure: The PwC consortium will conduct an annual survey to gauge basic knowledge of key privatization program issues by GOE and HC staff at various levels. More specific surveys should also be conducted at workshops and seminars. The survey results should indicate improved knowledge and competency to support privatization.

Progress: It was agreed with USAID in October 2000 that PIP would not conduct annual surveys. During the first year of Project implementation, PIP designed and delivered 3 capacity building sessions for representatives from HCs, JVs, and investment promoters. Two workshops were held in May and one in June.

Proposed New Measure:

PIP will seek and encourage greater involvement of local investment promoter (short-list) in privatisation. The number of privatisation transactions involving input by investment promoters should increase.

Benchmark 5: Successful sale of residual shares and non-corporatized assets.

Original Measure: The PwC consortium will assess the status of residual shares and non-corporatized assets and the prospects for their sale. Based on that assessment, the contractor will identify by the first Quarterly Report the Companies in which residual shares will be offered. The residual shares in these Companies will be offered for sale in the first 24 months of the project.

Progress: USAID has asked the PwC consortium to concentrate on assisting the GOE implement majority-stake transactions. In addition, PIP has still – as of the end of the 3rd Quarter 2001 – not been granted access to the overall Law 203 or MOEFT databases and does not have a complete picture of the ownership structure of Egypt's public enterprises, including residual shares.

Proposed New Measure:

PIP will focus on selling majority stakes in JVs to anchor investors. Privatization of JVs will result in successful sale of residual shares, as majority stakes in JVs are the result of consolidated residual shares of various state-owned entities.

Benchmark 6: Conversion rate targets met.

Original Measure: The PwC consortium will provide continuous and active participation as needed to complete privatization transactions. The PwC consortium will assist the GOE to sell 100% of Tier I firms and at least 50% of Tier II firms over the life of the project, and identify in their annual workplans more specific targets that promote this benchmark.

Progress: According to our new strategy, PwC will concentrate on selling individual public enterprises on a case-by-case basis. We will work intensely to close specific transactions – and will not pursue the wholesale or “pipeline management” methodologies we had proposed earlier in the Project.

Proposed New Measure:

Please refer to revised targets for Benchmark 1, which also impact the conversion rates discussed in this Benchmark. Consistent with our new strategic focus on a limited number of likely transactions, PIP will continue to report on progress made toward privatisation of all Tier I companies.

Benchmark 7: Increased investor interest in privatization offers.

Original Measure: The PwC consortium will assist the GOE to attract greater interest from buyers each year as measured by requests for bid documents (or their equivalents). Specifically, a) the number of overall requests each year should increase; b) the number of requests per equivalent transaction should increase; c) the number of requests from foreign investors should increase. Greater interest evidenced by inquiries, Company visits, and event attendance should also be documented. Increased investor interest will also be measured by the number of bidders in each privatization event and the number of bids placed for each transaction.

Progress: PIP sponsored and/or participated in a total of 15 events and conferences; 4 overseas and 11 in Cairo with an estimated attendance at all events of 2,740. All of the events had international participation from countries in Europe, Asia, Africa, North America, and the Gulf. It is estimated that contacts were made with over 100 serious potential investors. We supported the PEO with a total of 6 advertisements of the 2001 privatization program; 5 were in general international business publications and 1 was in an international trade publication. Tender announcements were posted internationally for 6 companies/assets in the PIP portfolio in 2 business publications and on 9 business/embassy websites. These advertisements yielded 18 inquiries from serious potential investors worldwide interested in a range of sectors.

We distributed a total of approximately 6,610 PIP introductory brochures and company profiles for 20

different HC and JV companies/assets in our portfolio (8 hotels, 2 trade, 3 fertilizers, 3 construction, 4 metallurgy). Additionally, interested investors purchased approximately 50 copies of info memos on 9 separate companies. All documents were distributed via the aforementioned events, conferences, investor requests from advertisements, and unsolicited investor/IB requests.

Proposed New Measure: We have completed this benchmark for Year One, but we propose that, per our new strategy, PwC no longer carry out broad-based, large-scale marketing activities such as road shows and investor conferences designed to increase interest in Egypt's public enterprises until investor confidence in the privatisation program is restored. Instead, small, dedicated transactions teams – each led by a seasoned expatriate investment banker – will market the Companies in their portfolios to targeted strategic investors and leading local investment banks. In short, we will focus on attracting quality – not quantity – investors for the Companies in our portfolio. We propose that the target for this benchmark be changed to read as follows:

The PwC consortium will assist the GOE to attract greater interest from buyers each year, measured by the number of bid documents requested/purchased for each transaction, the number of cases of due diligence, and the number of bids submitted.

Benchmark 8: Successful divestiture of public shares in Joint Venture and Investment Companies.

Original Measure: The PwC consortium will assist the GOE to divest its shares in at least 50 JV Companies in 2000; at least 75 Companies in 2001; and at least 75 Companies in 2002. The PwC consortium will assist the GOE to divest its shares in at least one insurance Company.

Progress: PIP has met with all of the GOE representatives for the JV Companies assigned to the Project and completed detailed diagnostic reviews of all 26 viable JV Companies assigned to the project. Strategic investors have expressed interest in more than 10 of these JV Companies. In addition, the MOEFT has promised to grant the Project access to its comprehensive database of more than 400 majority-owned JV Companies.

Proposed New Measure: The original target is too ambitious. In addition, we have not been given a mandate to work on insurance companies and we do not expect that the GOE will divest its shares in an insurance company before the end of 2002, so we propose to eliminate that condition. We propose that the target for this benchmark be changed to read as follows.

The PwC consortium will prepare 10 JV Companies to the point where they can be offered for sale by the GOE before the end of 2001, and will prepare an additional 25 JV companies to the point where they can be offered for sale before the end of 2003.

Benchmark 9: Value of privatization transactions.

Original Measure: The PwC consortium will assist the GOE to receive privatization sales prices (equivalent to cash, present value of investment commitments, and assumed debt) close to the official GOE floor valuation (where it exists). Specifically, the price received should be:

- At least equivalent to the floor valuation for Tier I Companies;
- At least equivalent to 50% of the floor valuation for Tier II Companies;
- At least equivalent to 33% of the floor valuation for Tier III Companies.

Progress: Our experience during the past 12 months shows that the GOE floor valuation (i.e., CAA reserve price) is usually significantly higher (from 6%-60%) than the price that investors are willing to pay under current market conditions. Furthermore, the GOE has been extremely reluctant to approve bids that are significantly lower than the reserve (floor) price, despite a recent Executive Regulation to Law 203 that permits this. To date, the GOE has sold just five public enterprises at prices below the floor valuation. Given the high CAA floor valuations and the GOE's reluctance to sell below that valuation, it is unlikely that the benchmark for Tier I, II or III companies can be met.

USAID is aware of the problems with the GOE's valuations and understands that addressing these issues is beyond the scope of this project. USAID is planning to include this problem in the DSP II project.

Proposed New Measure- add to the language of original measure:

PIP will work to assist the Government obtain the best possible price for the state-owned assets for sale and will report each quarter on the level of bids for Tier I companies. PIP will not be accountable for the level of the bids submitted.